Transcript of Opening Statement by Senate Budget Committee Chairman Kent Conrad at Hearing on the Economic Outlook
October 2, 2001

I apologize to the witnesses. As is frequently the case, we had a vote right at 10 am so a number of our members are still at that vote and will be on their way here momentarily. But, we're going to proceed because I understand Mr. Hubbard has some time constraints and so we want to proceed as expeditiously as possible.

I first want to thank all of the witnesses for coming. We certainly appreciate your being with us today and this is a difficult time.

The horrific events of September 11th affected our nation in many ways. Obviously one way is the economy and this morning we will have a hearing to discuss the effects on the economy and also talk about what we do from here. Is additional stimulus required? If so, how much and, of what type?

We know the economy was already weak at the time of the attack. Growth in GDP had been slowing, and was only 0.3 percent in the second quarter. The unemployment rate, which had been close to 4 percent for all of 2000, had increased to 4.5 percent in the Spring and then to 4.9 percent in August. I think we have charts that show these points, that show what's happened to growth in real GDP – obviously, very substantial declines. The unemployment rate had come down from 7.8 percent back in the early 90's. We'd seen a sharp decline, now in recent months an uptick there. Standard government statistics on the state of the economy come with a lag but there was plenty of other evidence that economic activity nearly ground to a halt in the immediate aftermath of the attack.

I was in New York yesterday and over the weekend talking to business leaders there, and I think all of us in our conversations with private sector leaders have heard the same thing that there was a very steep reduction in business activity after the attack. And, while we see some coming back – very good news -- we see more people on airplanes; we see people coming back into the malls and shops and back into the showrooms. Nonetheless, we're not back to where we were before September 11th.

I think we'll also hear testimony that the key to achieving a rapid recovery is to bolster business and consumer confidence. But that confidence appears quite fragile now. The University of Michigan index of consumer sentiment for September was down sharply. You can see from this chart very steep declines. The level for the entire month did not drop as much as experts were expecting, but the reading for the last week of the survey was down very sharply. And that's shown by the dot on this chart because that represents not a monthly reading but one week and we saw a very steep decline in that week.

If consumers are worried about their jobs and their incomes, they will be reluctant to spend; if consumers cut back on their spending, businesses will face falling sales and will be reluctant to invest. We could face a downward spiral of economic activity. The traditional response in those circumstances is economic stimulus.

The Federal Reserve has been providing monetary stimulus through the year with a succession of interest rate cuts. We are now seriously debating whether we should provide additional fiscal stimulus as well.

My own judgement is that we will probably need additional fiscal stimulus. After the consultations I've made last week and over the weekend and discussions with my colleagues, I think there is a growing consensus that we will need additional fiscal stimulus. We'll know better as we receive additional input on what's happening with consumers. Chairman Greenspan and Secretary Rubin have alerted us that we should wait before we make any final decision until we see this additional data. But, I don't think we can wait too long because if we are going to have an effect, we need to decide on the size of the stimulus package and the elements of the stimulus package. Chairman Greenspan mentioned a figure of 1 percent of GDP, or $100 billion. It was not entirely clear to me whether he included steps that had already been taken in that $100 billion. But in surveying economists, we have received estimates of anywhere from $50 billion additional package to $150 billion as necessary to really give a lift to the economy at this time. That's a broad range. I'd be interested in the distinguished witnesses here this morning what they sense not only in terms of the current state of the economy which is what we asked them to talk about here today, but also if additional stimulus is required how much stimulus and in what form.

In thinking about the actions we are going to take, we need to keep our eye on two key priorities. First, we have to attend to the immediate needs of defending this nation and promoting economic recovery. We are in a position to provide whatever resources are necessary to defend this nation. No adversary should have any doubts that the leadership of this country is joined at the shoulder in a common commitment to do whatever is necessary to defend our country. I have never seen such strong bipartisanship in the entire 15 years I've been in the United States Senate. In public meetings and in private, the leadership has been absolutely joined in a commitment to work together and to take this to the next level and to do it in a fully bipartisan way.

Let me just indicate that I believe not only is it critically important that we add fiscal stimulus in the short-term, but that we couple that with fiscal discipline for the long-term. That it is critically important that while we're adding fiscal stimulus we also need to be very cognizant of the effect of that package over time. We should do nothing that reduces our revenue base in the future because that will have a feedback effect on interest rates today. Secretary Rubin made very clear that if you are going to do additional fiscal stimulus it should be temporary in nature. It should not have permanent effects in terms of lowering the revenue base when we already face difficult challenges as a result of the weakening economy and the attack on September 11th. And, his message is a message that I believe in and share. That is, you have to be very careful that we don't take steps that have an adverse effect on interest rates now. And if we were to take permanent steps, permanent spending as part of a stimulus package or permanent tax cuts as part of a stimulus package, that could adversely effect interest rates now, put upward pressure on interest rates and offset what we're doing in terms of fiscal stimulus by having a reverse effect on the monetary side of the equation.

So I was very pleased to see the President indicate this morning that same thing. The President, as I understand it, indicating he's nearing consensus with Congress on a stimulus plan that could boost the economy without doing long-term damage. And, the long-term damage he was referencing was putting upward pressure on interest rates. Really, this same message that a number of us have been trying to deliver as we talk about the need for additional fiscal stimulus.

We are very fortunate to have with us this morning three distinguished witnesses to help us examine how to meet these obligations to provide short-term stimulus while protecting long-term budget discipline: Dr. Glenn Hubbard, the Chairman of the Council of Economic Advisers; Dr. Martin Baily, who was Dr. Hubbard's immediate predecessor at the Council of Economic Advisers in the Clinton Administration; and Dr. Alan Krueger, who served as Chief Economist at the Labor Department in the Clinton Administration. In addition to their government service, each has a very impressive research record in the academic community.

I think it is interesting there seems to be very little disagreement among the witnesses about the current state of the economy and of the importance of restoring business and consumer confidence. But I expect we will have a lively debate about which policies are best for achieving that goal.